

TILLAMOOK PEOPLE'S UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2010, and 2009

KENNETH KUHNS & CO.

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TILLAMOOK PEOPLE'S UTILITY DISTRICT

Board of Directors

<u>Name</u>	<u>Address</u>	<u>2010 Position</u>
Ken Phillips	4855 Sunset Drive Tillamook, Oregon	President
Harry E. Hewitt	1816 Ninth Street Tillamook, Oregon	Vice President
Barbara A. Trout	17640 Old Pacific Highway Rockaway Beach, Oregon	Treasurer
Doug Olson	PO Box 1000 Pacific City, Oregon	Secretary
Edwin L. Jenkins	6996 Bewley Creek Road Tillamook, Oregon	Director

Administrative Staff

Patrick F. Ashby	General Manager
Robert S. White	Power Services Group Manager
James R. Martin	Finance Manager
Joel George	Customer Services Manager
Barbara Johnson	Public Relations Manager

Registered Agent

Patrick F. Ashby 1115 Pacific Avenue Tillamook, Oregon

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INDEPENDENT AUDITOR'S REPORT

April 6, 2011

Board of Directors
Tillamook People's Utility District
Tillamook, Oregon

We have audited the balance sheets of Tillamook People's Utility District as of December 31, 2010, and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tillamook People's Utility District as of December 31, 2010, and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2011 on our consideration of Tillamook People's Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 4 through 8 and the schedule of funding progress for retiree health plan on page 24 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Tillamook People's Utility District. The other supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tillamook People's Utility District Management's Discussion and Analysis

The Management's Discussion and Analysis section of the District's Annual Financial Report presents an analysis of the financial position and activities of Tillamook People's Utility District for the year ended December 31, 2010. This report has been prepared by management and is a required component of an annual financial report prepared in accordance with generally accepted accounting principles. The discussion is designed to assist readers in understanding the accompanying financial statements through an objective and easily readable analysis of the District's financial activities based on currently known facts and conditions.

Financial Highlights

Comparison of 2010 and 2009 Revenues & Expenses

	<u>2010</u>		<u>2009</u>		<u>Increase (Decrease)</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:						
Sales of electricity	\$30,744,228	98.9%	\$29,796,352	98.9%	\$ 947,876	3.2%
Other operating revenues	342,695	1.1%	338,325	1.1%	4,370	1.3%
Total operating revenues	<u>31,086,923</u>	<u>100.0%</u>	<u>30,134,677</u>	<u>100.0%</u>	<u>952,246</u>	<u>3.2%</u>
Operating expenses:						
Cost of power	15,042,543	48.4%	14,758,958	49.0%	283,585	1.9%
Distribution expense:						
Operation	3,248,116	10.4%	2,988,352	9.9%	259,764	8.7%
Maintenance	2,756,626	8.9%	2,912,666	9.7%	(156,040)	-5.4%
Customer accounts	909,407	2.9%	940,907	3.1%	(31,500)	-3.3%
Customer svc & info	671,689	2.1%	630,634	2.1%	41,055	6.5%
Sales	141,649	0.5%	115,855	0.4%	25,794	22.3%
Admin & General	2,951,264	9.5%	3,008,440	10.0%	(57,176)	-1.9%
Depreciation	2,379,022	7.7%	2,030,529	6.7%	348,493	17.2%
Taxes	744,474	2.4%	694,453	2.3%	50,021	7.2%
Total operating expenses	<u>28,844,790</u>	<u>92.8%</u>	<u>28,080,794</u>	<u>93.2%</u>	<u>763,996</u>	<u>2.7%</u>
Net operating revenues	2,242,133	7.2%	2,053,883	6.8%	188,250	9.2%
Interest and other income	60,371	0.2%	115,248	0.4%	(54,877)	-47.6%
Total net op rev, int & other inc	<u>2,302,504</u>	<u>7.4%</u>	<u>2,169,131</u>	<u>7.2%</u>	<u>133,373</u>	<u>6.1%</u>
Interest and other charges:						
Interest on long-term debt	617,210	2.0%	785,493	2.6%	(168,283)	-21.4%
Other charges	64,774	0.2%	31,760	0.1%	33,014	103.9%
Total interest & other chgs	<u>681,984</u>	<u>2.2%</u>	<u>817,253</u>	<u>2.7%</u>	<u>(135,269)</u>	<u>-16.6%</u>
Net income	<u>\$ 1,620,520</u>	<u>5.2%</u>	<u>\$ 1,351,878</u>	<u>4.5%</u>	<u>\$ 268,642</u>	<u>19.9%</u>

Revenues

Revenues from sales of electricity showed an increase of 3.2% in 2010, even though kWh sales were only 0.7% higher in 2010. The difference is due to the 10% winter discounts that were in effect for the three winters ending in April 2009. The 10% winter discounts were applied to all retail rates across the board to all classes of customers.

Power Supply

The Districts cost of power increased 1.9% in 2010 over 2009. This was due to a combination of the increase in kWh's purchased and BPA's wholesale power increase of 7% that went into effect as of October 2009.

Other Expenses

Distribution expense - Operations was up \$259,764 or 8.7% over the 2009 amount. Two items of note account for a good portion of this increase: First, the expensed portion of engineering clearing expense was about \$106,000 over 2009 amounts, and second, labor related charges to operations were about \$74,000 over 2009 amounts.

Depreciation expense increased \$348,493 or 17.2% from 2009. This was due in a large part to the Districts new Automated Meter Reading \$3.7 million project being capitalized in late 2009. Once capitalized, the asset started depreciating in 2010 contributing to the large increase in Depreciation expense.

Interest and other income was down \$54,877, or 47.6%. The interest rate on temporary investments dropped from 2009 to 2010. Also, the cash reserve levels that earn interest dropped in 2010.

Interest on long-term debt decreased \$168,283 or 21.4%. The District has three RUS loans that are on one year variable interest rates that benefited from the drop in interest rates.

Balance Sheet:

	<u>2010</u>	<u>Percent</u>	<u>2009</u>	<u>Percent</u>
Assets				
Total electric plant	\$ 82,810,498		\$ 78,822,752	
Accumulated provision for depr	(21,813,140)		(20,167,501)	
Net electric plant	60,997,358	82.4%	58,655,251	80.0%
Notes receivable	355,410	0.5%	427,850	0.6%
Bond fund accounts	5,793,695	7.8%	5,768,845	7.9%
Current assets	5,807,686	7.8%	7,531,852	10.3%
Other assets and deferred chgs	1,137,036	1.5%	876,633	1.2%
Total assets	<u>\$ 74,091,185</u>	<u>100.0%</u>	<u>\$ 73,260,431</u>	<u>100.0%</u>
Liabilities & Net Assets				
Net assets	\$ 45,060,997	60.8%	\$ 43,440,477	59.3%
Long-term debt	22,903,597	31.0%	23,878,353	32.6%
Current liabilities	6,018,481	8.1%	5,635,180	7.7%
Deferred credits & other liab	108,110	0.1%	306,421	0.4%
Total Liabilities & Net Assets	<u>\$ 74,091,185</u>	<u>100.0%</u>	<u>\$ 73,260,431</u>	<u>100.0%</u>

The balance sheet shows an increase in Net electric plant of \$2.3 million. Normal construction and capital projects including the new Hebo warehouse account for this increase. Current assets decreased \$1.7 million as the 2008 bond proceeds were spent on construction of plant. Long-term debt decreased just under \$1 million as we paid off normal debt maturities with no new debt. There was a current refunding of the 1998 bond issue that retired the 1998 issue and replaced it with a 2010 bond issue that had a lower interest rate that had minimal effect on the balance sheet, but will have net present value savings of \$482,000 over the remaining life of the 18 year bond sale.

Capital Assets

The District's investment in net electric plant as of December 31, 2010 amounted to \$60,997,358, net of accumulated depreciation. This represents 82.4% of total assets. Investment in electric plant includes land, structures, improvements, station equipment, poles, conductor, meters and transformers.

Long Term Debt

As of December 31, 2010, the District had debt outstanding of \$22,903,597. Of this amount, \$6,012,848 is from the 2008 bond sale, \$6,609,747 is from the 2010 bond sale, and \$10,281,002 consists of revenue certificates of indebtedness, issued in lieu of bonds for loans from the Rural Utilities Service.

Next Year's Budget

The 2011 budget forecasts higher sales revenue in anticipation of its first retail rate increase in ten years. Power supply costs increase due to BPA's 10.7% wholesale rate increase effective October 2011. Operating expenses overall increase similar to prior years, with the exception of some maintenance of buildings including a new roof needed on the office and painting of the warehouse overhang. These two maintenance items are budgeted to total \$300,000. The major construction projects include the Oceanside transmission line with a budget of \$1 million in 2011, and Ice Hill underground – phase 2 budgeted for \$750,000. All projects will be performed by District employees with the exception of the transmission projects for Oceanside and Neskowin.

An RUS loan of \$7 million is budgeted for 2011. This amount represents the first half of the \$14 million RUS loan.

Five Year Comparison, stated in percentage of total operating revenue

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:					
Thousands of dollars	\$ 31,087	\$ 30,135	\$ 28,840	\$ 28,342	\$ 28,850
Percent	100.0%	100.0%	100.0%	100.0%	100.0%
Deduct:					
Cost of power	48.4%	49.0%	40.3%	50.4%	52.3%
Other operating expenses	44.4%	44.2%	43.6%	42.4%	40.4%
Net operating revenues	7.2%	6.8%	16.1%	7.2%	7.3%
Interest and other income	0.2%	0.4%	1.1%	1.3%	1.6%
Total net operating revenues, interest and other income	7.4%	7.2%	17.2%	8.5%	8.9%
Deduct:					
Interest and other charges	2.2%	2.7%	3.3%	2.9%	2.9%
Net Income	5.2%	4.5%	13.9%	5.6%	6.0%

Five Year Comparison of Financial Ratios

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Times Interest Earned Ratio (TIER):					
<i>Measures the extent to which earnings are adequate to meet the annual interest costs for bonds and certificates</i>					
<i>R.U.S. minimum is 1.25</i>					
Net Income	\$ 1,620,520	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685
Add Interest expense	646,986	816,693	968,721	819,240	813,699
Rate stabilization fund (RSF) transfers	-	-	(1,500,000)	-	-
Subtotal	2,267,506	2,168,571	3,464,206	2,443,717	2,577,384
Divide by interest expense	646,986	816,693	968,721	819,240	813,699
TIER	3.50	2.66	3.58	2.98	3.17

Operating TIER:

Same as TIER above, except uses Net operating revenue instead of Net income

R.U.S. minimum is 1.10

Net oper rev (net of RSF tsfrs)	\$ 2,242,133	\$ 2,053,883	\$ 3,139,287	\$ 2,068,935	\$ 2,113,804
Divide by interest expense	646,986	816,693	968,721	819,240	813,699
Operating TIER	3.47	2.51	3.24	2.53	2.60

Debt Service Coverage (DSC):

Measures the District's ability to cover its debt service for bonds and certificates

R.U.S. minimum is 1.25

Net Income	\$ 1,620,520	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685
Add interest expense	646,986	816,693	968,721	819,240	813,699
Add depreciation expense	2,379,022	2,030,529	1,958,724	1,759,776	1,732,213
RSF transfers	-	-	(1,500,000)	-	-
Subtotal	4,646,528	4,199,100	5,422,930	4,203,493	4,309,597
Divide by debt svc maturities	1,746,576	1,841,871	1,937,157	1,530,790	1,500,127
DSC	2.66	2.28	2.80	2.75	2.87

Operating DSC:

Same as DSC above, except uses Net operating revenue instead of Net income

Net operating revenue	\$ 2,242,133	\$ 2,053,883	\$ 3,139,287	\$ 2,068,935	\$ 2,113,804
Add depreciation expense	2,379,022	2,030,529	1,958,724	1,759,776	1,732,213
RSF transfers	-	-	-	-	-
Subtotal	4,621,155	4,084,412	5,098,011	3,828,711	3,846,017
Divide by debt svc maturities	1,746,576	1,841,871	1,937,157	1,530,790	1,288,524
Operating DSC	2.65	2.22	2.63	2.50	2.98

Equity Level:

Represents how much the customer has furnished of the total assets as compared to the portion borrowed

Net assets	\$ 45,060,997	\$ 43,440,477	\$ 42,088,599	\$ 38,093,114	\$ 36,468,637
Total assets	74,091,185	73,260,431	72,578,194	64,041,861	62,365,232
Equity Level	60.8%	59.3%	58.0%	59.5%	58.5%

Working Capital

The amount of current assets above current liabilities

Current assets	\$ 5,807,686	\$ 7,531,852	\$ 8,515,403	\$ 4,467,523	\$ 7,897,429
less current liabilities	6,018,481	5,635,180	5,445,029	6,529,010	5,803,012
Working capital	-210,795	1,896,672	3,070,374	-2,061,487	2,094,417

(Continues)

Five Year Comparison of Financial Ratios (Continued)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current Ratio:					
<i>Current assets compared to current liabilities</i>					
Current assets	\$ 5,807,686	\$ 7,531,852	\$ 8,515,403	\$ 4,467,523	\$ 7,897,429
Current liabilities	6,018,481	5,635,180	5,445,029	6,529,010	5,803,012
Current ratio	0.96	1.34	1.56	0.68	1.36
Rate of Return					
<i>Net income as a percentage of net utility plant</i>					
Net income	\$ 1,620,520	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685
Net utility plant	60,997,358	58,655,251	53,311,033	51,302,504	48,258,503
Rate of Return	2.7%	2.3%	7.5%	3.2%	3.7%

FINANCIAL STATEMENTS

EXHIBIT A

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	December 31,	
	<u>2010</u>	<u>2009</u>
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 81,071,193	\$ 75,719,795
Acquisition adjustment	(126,384)	(126,384)
Construction work in progress	1,865,689	3,229,341
Total electric plant	82,810,498	78,822,752
Less:		
Accumulated provision for depreciation	(21,813,140)	(20,167,501)
Net electric plant	60,997,358	58,655,251
Notes receivable	355,410	427,850
Bond fund accounts: (Notes 1 and 3)		
Cash and investments:		
Reserve fund	2,293,695	2,268,845
Rate stabilization fund	3,500,000	3,500,000
Total bond fund accounts	5,793,695	5,768,845
Current assets:		
Cash and investments: (Notes 1 and 3)		
Cash and cash equivalents	918,178	2,748,022
Principal redemption fund	639,145	580,552
Special deposits related to bond interest	97,410	139,627
Accounts receivable (net of allowance for doubtful accounts of \$407,608 and \$419,008, respectively)	2,677,736	2,561,583
Interest receivable	8,163	2,271
Materials and supplies, at average cost	1,061,677	1,104,705
Prepayments	405,377	395,092
Total current assets	5,807,686	7,531,852
Other assets and deferred charges:		
Other deferred charges (Notes 1 and 4)	1,137,036	876,633
Total assets	\$ 74,091,185	\$ 73,260,431

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Assets and Liabilities</u>	December 31,	
	<u>2010</u>	<u>2009</u>
Net Assets:		
Invested in capital assets - net of related debt	\$ 36,932,115	\$ 33,738,012
Restricted for rate stabilization fund	3,500,000	3,500,000
Restricted for bond debt service	2,932,840	2,849,397
Unrestricted	1,696,042	3,353,068
Total net assets	<u>45,060,997</u>	<u>43,440,477</u>
Long-term debt: (Note 5)		
Revenue bonds, less current maturities	12,495,000	12,940,000
RUS revenue certificates of indebtedness, less current maturities	10,281,002	10,872,648
Unamortized revenue bond premium	127,595	65,705
Total long-term debt	<u>22,903,597</u>	<u>23,878,353</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,161,646	1,038,886
Accounts payable	2,927,736	2,659,556
Customer deposits	271,547	253,232
Accrued interest	97,410	139,627
Accrued vacation pay	723,250	650,118
Other accruals	836,892	893,761
Total current liabilities	<u>6,018,481</u>	<u>5,635,180</u>
Commitments (Note 10)		
Other liabilities and deferred credits:		
Deferred credits (Note 1)	83,110	281,421
Operating reserves:		
Reserve for state unemployment compensation	25,000	25,000
Total net assets and liabilities	<u>\$ 74,091,185</u>	<u>\$ 73,260,431</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and
Changes in Net Assets

	Years Ended December 31,	
	2010	2009
Operating revenues:		
Sales of electricity:		
Residential:		
Urban and rural	\$ 13,535,661	\$ 13,898,001
Secondary	4,241,852	4,145,655
Commercial:		
Small	5,477,956	5,442,224
Large	7,098,659	5,927,819
Area lighting	270,858	266,662
Public lighting	119,242	115,991
Other operating revenues	342,695	338,325
Total operating revenues	<u>31,086,923</u>	<u>30,134,677</u>
Operating expenses:		
Cost of power	15,042,543	14,758,958
Distribution expense:		
Operation	3,248,116	2,988,352
Maintenance	2,756,626	2,912,666
Customer accounts expense	909,407	940,907
Customer service and informational expense	671,689	630,634
Sales expense	141,649	115,855
Administrative and general expense	2,951,264	3,008,440
Depreciation	2,379,022	2,030,529
Taxes	744,474	694,453
Total operating expenses	<u>28,844,790</u>	<u>28,080,794</u>
Net operating revenues	2,242,133	2,053,883
Interest and other income	60,371	115,248
Total net operating revenues, interest and other income	<u>2,302,504</u>	<u>2,169,131</u>
Interest and other charges:		
Interest on long-term debt:		
Bonds and certificates	646,986	816,693
Less amount charged to construction	(29,776)	(31,200)
Other deductions	25,000	-
Amortization of debt premium, discount, expense and loss	39,774	31,760
Total interest and other charges	<u>681,984</u>	<u>817,253</u>
Net income	1,620,520	1,351,878
Net assets - beginning of year	<u>43,440,477</u>	<u>42,088,599</u>
Net assets - end of year	<u>\$ 45,060,997</u>	<u>\$ 43,440,477</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$30,989,085	\$29,624,800
Cash payments for purchased power	(15,443,800)	(13,447,438)
Cash payments to suppliers for goods and services	(5,663,614)	(6,711,758)
Cash payments to employees for services	(5,041,168)	(4,390,493)
Net cash provided by operating activities	<u>4,840,503</u>	<u>5,075,111</u>
Cash flows from capital and related financing activities:		
Bond proceeds (including premium of \$64,748)	7,454,748	-
Bond issuance costs	(183,544)	(5,240)
Principal payments on bonds and certificates of indebtedness	(8,303,886)	(937,498)
Interest payments on long-term debt, net of amount capitalized	(659,427)	(873,173)
Construction and acquisition of plant	(4,601,728)	(3,191,165)
Plant removal costs	(442,572)	(510,309)
Materials salvaged from retirements	124,860	149,749
Increase in miscellaneous deferred charges	(144,491)	(65,759)
Net cash used in capital and related financing activities	<u>(6,756,040)</u>	<u>(5,433,395)</u>
Cash flows from investing activities:		
Net decrease-(increase) in:		
Notes receivable	72,440	57,352
Bond fund accounts	(24,850)	-
Principal redemption fund	(58,593)	(83,054)
Special deposits related to bond interest	42,217	87,680
Interest and other income	<u>54,479</u>	<u>141,788</u>
Net cash provided by investing activities	<u>85,693</u>	<u>203,766</u>
Net decrease in cash and cash equivalents	(1,829,844)	(154,518)
Cash and cash equivalents - beginning of year	<u>2,748,022</u>	<u>2,902,540</u>
Cash and cash equivalents - end of year	<u>\$ 918,178</u>	<u>\$ 2,748,022</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2010	2009
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	<u>\$ 2,242,133</u>	<u>\$ 2,053,883</u>
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	2,379,022	2,030,529
Decrease-(increase) in:		
Accounts receivable	(116,153)	349,866
Materials and supplies	43,028	413,188
Prepayments	(10,285)	34,813
Increase-(decrease) in:		
Accounts payable	268,180	(101,206)
Customer deposits	18,315	23,058
Accrued vacation pay	73,132	11,699
Other accruals	<u>(56,869)</u>	<u>259,281</u>
Total adjustments	<u>2,598,370</u>	<u>3,021,228</u>
Net cash provided by operating activities	<u>\$ 4,840,503</u>	<u>\$ 5,075,111</u>
Noncash investing, capital and financing activities:		
Other deferred charges	\$ 67,632	\$ 34,616
Unamortized revenue bond premium	(2,858)	(2,856)
Other deductions	(25,000)	-
Amortization of debt premium, discount, expense and loss	<u>(39,774)</u>	<u>(31,760)</u>
Total noncash investing, capital and financing activities	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Tillamook People's Utility District is a municipal corporation organized under Oregon Revised Statutes Chapter 261. The District is a power distribution utility serving patrons in almost all of Tillamook County and small portions of Yamhill and Clatsop counties. The District's Board of Directors has the authority to set rates and charges for services furnished. Substantially all revenues are derived from the sale of electric power to residential and commercial customers.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC. Significant policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reporting Entity - The financial statements of the District include all financial activities for which the Board of Directors is financially accountable. The District has no component units.

Basis of Accounting – The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Sales of electricity are generally recognized on the basis of billings and are recorded when customers are billed.

The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The District has elected not to follow subsequent private-sector guidance.

Electric Plant - Electric plant is recorded at cost. The cost of additions, renewals and replacements of property is added to plant, and repairs and maintenance of property is charged to expense. The District capitalizes an allowance for funds used during construction equivalent to the interest cost incurred to finance plant under construction. Property units renewed or replaced are removed from plant at their estimated cost. The cost of plant retired, plus removal cost, less salvage, is charged to the depreciation reserve.

Investments – Investments are carried at fair value.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Cash Equivalents - For purposes of the cash flows statement, the District considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and investments which are restricted for debt service are not considered to be cash equivalents.

Deferred Items - Established utility accounting procedures permit deferral of items which affect the time at which various items enter into the determination of net income.

Restricted Net Assets - Restricted net assets reported in the Balance Sheet represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations.

Additional significant accounting policies are summarized in Note 2.

2 - ELECTRIC PLANT AND DEPRECIATION PROCEDURES:

Electric plant activity for the year ended December 31, 2010 was as follows:

	Balance January 1, 2010	Increases	Decreases	Balance December 31, 2010
Electric plant not being depreciated:				
Land	\$ 973,087	\$ 119,081	\$ -	\$ 1,092,168
Intangible plant	556	-	-	556
Construction in progress	3,229,341	2,496,553	3,860,205	1,865,689
Total electric plant not being depreciated	4,202,984	2,615,634	3,860,205	2,958,413
Electric plant being depreciated:				
Transmission and distribution	64,962,516	4,471,465	525,752	68,908,229
General	9,783,636	1,558,847	272,243	11,070,240
Total electric plant being depreciated	74,746,152	6,030,312	797,995	79,978,469
Less accumulated depreciation	20,167,501	2,379,022	733,383	21,813,140
Total electric plant being depreciated, net	54,578,651	3,651,290	64,612	58,165,329
Acquisition adjustment	(126,384)	-	-	(126,384)
Electric plant, net	\$ 58,655,251	\$ 6,266,924	\$ 3,924,817	\$ 60,997,358

Provision has been made for depreciation of transmission plant at a straight-line annual composite rate of 2.75 percent in 2010 and 2009. Provision has been made for depreciation of distribution plant at straight-line annual composite rates of 1.8 to 14.4 percent in 2010 and 2009. General plant depreciation rates have been applied on a straight-line basis with annual rates of 3.0 to 14.4 percent in 2010 and 2009.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of December 31, 2010, and 2009:

	<u>2010</u>	<u>2009</u>
Working funds	\$ 1,850	\$ 1,450
Deposits with financial institutions	3,691,298	3,946,022
Investments	<u>3,755,280</u>	<u>5,289,574</u>
Total cash and investments	<u>\$7,448,428</u>	<u>\$9,237,046</u>

Deposits

Deposits with financial institutions include bank demand and time certificate deposits. The total bank balance, as shown on the banks' records, was \$3,736,198 at December 31, 2010, and \$4,011,107 at December 31, 2009. Of these deposits, the total covered by federal depository insurance was \$1,250,902 at December 31, 2010, and \$1,106,308 at December 31, 2009.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) Chapter 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third-party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for deposits custodial credit risk. Of the District's bank balance, \$2,485,296 was exposed to custodial credit risk as of December 31, 2010, and \$2,904,799 was exposed to custodial credit risk as of December 31, 2009, because collateral for deposits covered by the state collateral pool is not held by a third-party custodian bank in the District's name.

Investments

State statutes authorize the District to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the Oregon Local Government Investment Pool, among others. The District has no investment policy that would further limit its investment choices.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

The composition of the District's investments as of December 31, 2010, and 2009, is shown below:

	2010		2009	
	Fair Value	Percent	Fair Value	Percent
U.S. Treasury Obligations	\$ 2,495,044	66.4%	\$ 2,598,208	49.1%
Investment in Oregon Local Government Investment Pool	1,260,236	33.6%	2,691,366	50.9%
Total investments	\$ 3,755,280	100.0%	\$ 5,289,574	100.0%

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. The fair value of the District's position in the pool is substantially the same as the value of the District's participant balance.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2010 were: 75% mature within 93 days, 7% mature from 94 days to one year, and 18% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2009 were: 64% mature within 93 days, 13% mature from 94 days to one year, and 23% mature from one to three years.

The District's investments in U.S. Treasury obligations do not require a rating. As of December 31, 2010, and 2009, all of these investments mature in less than one year.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities underlying the District's investment in the U.S. Treasury obligations are held by the District's counterparty, not in the District's name.

Cash and investments as of December 31, 2010, and 2009, are presented on the balance sheet as follows:

	<u>2010</u>	<u>2009</u>
Bond fund accounts:		
Reserve fund	\$ 2,293,695	\$ 2,268,845
Rate stabilization fund	3,500,000	3,500,000
Cash and cash equivalents	918,178	2,748,022
Principal redemption fund	639,145	580,552
Special deposits related to bond interest	97,410	139,627
Total cash and investments	<u>\$ 7,448,428</u>	<u>\$ 9,237,046</u>

The District created a rate stabilization fund as permitted by the District's bond resolution and is funding it from unrestricted cash and investments. The resolution allows the District to use amounts in this fund for its debt service coverage calculation as defined in the District's bond resolution.

4 - DETAIL OF OTHER DEFERRED CHARGES:

Following is a summary of amounts recorded as other deferred charges as of December 31, 2010, and 2009:

	<u>2010</u>	<u>2009</u>
Unamortized debt discount and expense	\$ 437,967	\$ 429,990
Unamortized loss on reacquisition of debt	376,395	243,460
Long range plan	-	25,150
Other	322,674	178,033
Total deferred charges	<u>\$ 1,137,036</u>	<u>\$ 876,633</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

5 - LONG-TERM DEBT:

Bonds and Certificates

Authority to issue revenue bonds is granted to the District under the provisions of Chapter 261, Oregon Revised Statutes. Revenue certificates of indebtedness have been issued in lieu of bonds for loans obtained from the Rural Utilities Service. Long-term debt covenants specify that District revenues are pledged for the retirement of long-term debt. The proceeds of all bonds and certificates were used for construction and acquisition of capital assets.

At December 31, 2010, bonds and certificates payable consist of the following:

Electric System Revenue Bonds:	
Series 2008	\$ 6,130,000
Series 2010, refunding bonds	<u>6,935,000</u>
Total electric system revenue bonds	<u>13,065,000</u>
RUS revenue certificates of indebtedness:	
5% certificates	1,559,000
variable rate certificates	<u>9,313,648</u>
Total RUS revenue certificates of indebtedness	<u>10,872,648</u>
Total bonds and certificates payable	23,937,648
Less current maturities	<u>1,161,646</u>
Long-term debt	<u><u>\$ 22,776,002</u></u>

The Electric System Revenue Bonds, Series 2008, are due annually through December 1, 2032, with interest at 4% to 4.25% per annum payable semi-annually on June 1 and December 1.

The Electric System Revenue Refunding Bonds, Series 2010, are due annually through December 1, 2027, with interest at 2% to 4% per annum payable semi-annually on June 1 and December 1. The proceeds of the Series 2010 Bonds were used to extinguish \$7,135,000 of outstanding Electric System Revenue Bonds, Series 1998 through an in-substance defeasance. The in-substance defeasance was accomplished by placing the proceeds of the Series 2010 Bonds in an irrevocable trust. The trust assets were used to retire the defeased Series 1998 Bonds on the April 6, 2010 call date. The excess of the reacquisition price of the defeased debt over its carrying value was deferred and is being amortized over the term of the Series 2010 bonds.

The District advance refunded the Series 1998 bonds to take advantage of lower interest rates and to reduce its total debt service payments over the life of the Series 2010 bonds by \$607,509. The refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$482,014.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

5 - LONG-TERM DEBT: (Contd)

Bonds and Certificates (Contd)

The RUS revenue certificates of indebtedness are due semi-annually or annually with interest at 5% per annum or a variable rate with a maximum rate of 7% per annum.

Principal and interest activity during the year was as follows:

	Principal			Outstanding 12-31-2010	Interest Matured and paid
	Outstanding 1-1-2010	Issued	Matured and paid		
Revenue bonds	\$13,440,000	\$ 7,390,000	\$ 7,765,000	\$ 13,065,000	\$ 532,964
Certificates of indebtedness	11,411,534	-	538,886	10,872,648	156,239
Totals	<u>\$24,851,534</u>	<u>\$ 7,390,000</u>	<u>\$ 8,303,886</u>	<u>\$ 23,937,648</u>	<u>\$ 689,203</u>

Scheduled future maturities of principal and interest are as follows:

Year	Electric System Revenue Bonds		RUS Revenue Certificates of Indebtedness		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 570,000	\$ 475,889	\$ 591,646	\$ 456,217	\$ 1,161,646	\$ 932,106
2012	580,000	460,889	508,458	514,544	1,088,458	975,433
2013	600,000	443,614	528,654	489,044	1,128,654	932,658
2014	620,000	423,664	514,108	463,355	1,134,108	887,019
2015	635,000	403,064	540,832	437,315	1,175,832	840,379
2016-20	3,550,000	1,679,745	2,475,206	1,815,571	6,025,206	3,495,316
2021-25	3,485,000	1,010,943	2,814,942	1,148,040	6,299,942	2,158,983
2026-30	2,220,000	427,623	2,758,802	375,490	4,978,802	803,113
2031-32	805,000	51,637	140,000	4,900	945,000	56,537
Totals	<u>\$13,065,000</u>	<u>\$5,377,068</u>	<u>\$10,872,648</u>	<u>\$ 5,704,476</u>	<u>\$23,937,648</u>	<u>\$11,081,544</u>

Scheduled interest maturities for RUS variable rate loans are based on the maximum rate of seven percent per annum, except for the 23rd Series. The 23rd Series are equal payment loans and scheduled principal and interest maturities are based on an estimated variable rate provided by RUS.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

6 - RETIREMENT PLAN:

Plan Description

The District participates in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The system is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes Chapter 238 and Chapter 238A by the Public Employees Retirement Board. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. A stand-alone financial report is not available for the District. However, the State of Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, 11410 S.W. 68th Parkway, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-PERS.

Funding Policy

PERS members are required to contribute 6% of their annual covered salary. The District is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll for member employees of the State and Local Government Rate Pool. The current rate is 8.55% of annual covered payroll for member employees of the Oregon Public Service Retirement Plan. The District contributes the employer's portion and the employee's portion for all employees. The contribution requirements of plan members and the District are established and may be amended by the Public Employees Retirement Board. The District's contributions to PERS for the years ended December 31, 2010, 2009, and 2008 were \$506,209, \$593,388, and \$680,877, respectively, equal to the required contributions each year.

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides postretirement healthcare benefits for eligible retirees until the retiree turns 65 or has received the subsidy for 5 years. Benefit provisions are established through District policy. The District's post-employment health care plan does not issue a publicly available financial report.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Funding Policy

Contribution requirements are established through District policy. Retirees and their dependents are eligible to receive the same medical and dental coverage as active employees. \$350 of the monthly medical premium is paid by the employer. The retiree is responsible for the dental premiums. No spousal coverage is paid for by the employer. Funding is on a pay-as-you-go basis. The District made \$33,483 in contributions to the plan in 2010 and \$18,701 in contributions to the plan in 2009.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 15 year period. The following table shows the components of the District's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District's net OPEB obligation:

	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 49,641	\$ 48,097
Interest on net OPEB obligation	1,496	188
Adjustment to annual required contribution	<u>(4,573)</u>	<u>(529)</u>
Annual OPEB cost	46,564	47,756
Contributions made	<u>(33,483)</u>	<u>(18,701)</u>
Increase in net OPEB obligation	13,081	29,055
Net OPEB obligation - beginning of year	<u>33,237</u>	<u>4,182</u>
Net OPEB obligation - end of year	<u><u>\$ 46,318</u></u>	<u><u>\$ 33,237</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years were as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2010	\$ 46,564	71.9%	\$ 46,318
12/31/2009	\$ 47,756	39.2%	\$ 33,237
12/31/2008	\$ 33,582	87.5%	\$ 4,182

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Funded Status and Funding Progress

As of August 1, 2008, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$285,126 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$285,126. The covered payroll (annual payroll of active employees covered by the plan) was \$2,434,203 for 2008 and the ratio of the UAAL to the covered payroll was 11.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation conducted as of August 1, 2008, the projected unit credit actuarial cost method was used. Actuarial assumptions included a discount rate of 4.5% and an annual healthcare cost trend rate of 8% in the first year, 7% in the second year, and grading down to 5.55 in the fifteenth year. The unfunded actuarial accrued liability is being amortized using the level-dollar method over an open 15-year period.

8 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is a member of Special Districts Insurance Services (SDIS) and pays an annual premium to SDIS for risks of loss including general liability, automobile liability, public official liability and property coverage. Under the membership agreement with SDIS, SDIS is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2010, and 2009

9 - INCOME TAX STATUS:

The District is a people's utility district organized under Oregon Revised Statutes Chapter 261. As a political subdivision of the State of Oregon, the District is exempt from taxation under the provisions of Section 115 of the Internal Revenue Code.

10 - COMMITMENTS:

Power Purchase Agreements

In October 2000, the District executed a Full Service Power Sales Agreement with the Bonneville Power Administration (BPA) for the period October 1, 2001 through September 30, 2011. Wholesale power rates under this agreement are not fixed.

In October 2008, the District executed a Power Sales Agreement with the Bonneville Power Administration for the period October 1, 2011 through September 30, 2028. Wholesale power rates under this agreement are not fixed.

REQUIRED SUPPLEMENTARY INFORMATION

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date	Actuarial Valuation Date
	<u>8-1-2008</u>	<u>8-1-2006</u>
Actuarial value of assets (a)	\$ -	\$ -
Actuarial accrued liability (b)	<u>285,126</u>	<u>251,878</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 285,126</u>	<u>\$ 251,878</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 2,434,203</u>	<u>\$ 6,759,924</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>11.7%</u>	<u>3.7%</u>

Employer-paid health care benefits were closed to new entrants effective January 1, 2008.

As of January 1, 2008, active members were given a choice of maintaining eligibility for future employer-paid retiree medical coverage or receiving a \$7,500 one-time contribution to a VEBA account. Only members who maintained eligibility for future employer-paid retiree medical coverage are included in the August 1, 2008 valuation.

OTHER SUPPLEMENTARY INFORMATION

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Changes in Electric Plant in Service
Year Ended December 31, 2010

	Balance 1/1/2010	Additions	Retirements	Balance 12/31/2010
Intangible plant:				
Miscellaneous intangible plant	\$ 556	\$ -	\$ -	\$ 556
Transmission and distribution plant:				
Land and land rights	617,110	1,481	-	618,591
Roads and trails	47,128	-	-	47,128
Station equipment	10,789,332	252,951	-	11,042,283
Poles, towers and fixtures	8,811,292	2,074,783	99,831	10,786,244
Overhead conductors and devices	12,561,464	905,613	89,570	13,377,507
Underground conduit	1,312,506	48,323	1,558	1,359,271
Underground conductors and devices	7,314,476	321,261	5,984	7,629,753
Transformers, regulators and capacitors	13,812,755	475,860	124,425	14,164,190
Services	6,041,789	340,556	110,203	6,272,142
Meters and devices	3,888,393	42,189	91,634	3,838,948
Installations on customers' premises	222,900	4,293	1,349	225,844
Street lighting equipment	207,609	5,636	1,198	212,047
Total transmission and distribution plant	<u>65,626,754</u>	<u>4,472,946</u>	<u>525,752</u>	<u>69,573,948</u>
General plant:				
Land and land rights	308,849	117,600	-	426,449
Structures and improvements	3,856,461	620,240	-	4,476,701
Office furniture and equipment	94,142	-	-	94,142
Computer equipment	293,660	24,036	-	317,696
Transportation equipment	4,204,326	626,005	272,243	4,558,088
Stores equipment	74,414	2,344	-	76,758
Shop equipment	205,358	-	-	205,358
Laboratory equipment	151,443	-	-	151,443
Heavy work equipment	35,139	-	-	35,139
Communications equipment	443,710	264,259	-	707,969
Miscellaneous equipment	424,983	21,963	-	446,946
Total general plant	<u>10,092,485</u>	<u>1,676,447</u>	<u>272,243</u>	<u>11,496,689</u>
Total electric plant in service	<u>\$75,719,795</u>	<u>\$ 6,149,393</u>	<u>\$ 797,995</u>	<u>\$ 81,071,193</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Bonds and Certificates Debt Service Transactions
Year Ended December 31, 2010

	Interest Rates	Original Issue	Principal Transactions				Interest Transactions			
			Outstanding 1/1/2010	2010 Issues	2010 Retirements	Outstanding 12/31/2010	Matured 1/1/2010	2010 Maturities	2010 Payments	Matured 12/31/2010
Electric system revenue bonds:										
22nd series, dated 11/1/1998	4.15 - 4.75%	\$ 9,995,000	\$ 7,135,000	\$ -	\$ 7,135,000	\$ -	\$ -	\$ 111,513	\$ 111,513	\$ -
24th series, dated 3/1/2008	4 - 4.25%	6,625,000	6,305,000	-	175,000	6,130,000	-	256,620	256,620	-
25th series, dated 3/1/2010	2 - 4%	7,390,000	-	7,390,000	455,000	6,935,000	-	164,831	164,831	-
RUS revenue certificates of indebtedness:										
10th series, dated 10/1/1976	5%	965,000	65,000	-	30,000	35,000	-	2,506	2,506	-
11th series, dated 5/1/1979	5%	646,000	148,000	-	34,000	114,000	-	6,557	6,557	-
13th series, dated 9/1/1980	5%	1,671,000	543,000	-	78,000	465,000	-	25,216	25,216	-
15th series, dated 3/1/1983	5%	864,000	390,000	-	30,000	360,000	-	18,756	18,756	-
18th series, dated 11/1/1988	5%	993,000	615,000	-	30,000	585,000	-	30,006	30,006	-
20th series, dated 7/1/1994	variable	2,920,000	2,415,000	-	55,000	2,360,000	-	21,928	21,928	-
21st series, dated 11/1/1996	variable	2,170,000	1,820,000	-	45,000	1,775,000	-	12,141	12,141	-
23rd series, dated 11/1/2003	variable	6,125,000	5,415,534		236,886	5,178,648	-	39,129	39,129	-
Total		<u>\$ 40,364,000</u>	<u>\$ 24,851,534</u>	<u>\$ 7,390,000</u>	<u>\$ 8,303,886</u>	<u>\$ 23,937,648</u>	<u>\$ -</u>	<u>\$ 689,203</u>	<u>\$ 689,203</u>	<u>\$ -</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Future Bonds and Certificates Debt Service Requirements
December 31, 2010

Year	Electric System Revenue Bonds		RUS Revenue Certificates of Indebtedness		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 570,000	\$ 475,889	\$ 591,646	\$ 456,217	\$ 1,161,646	\$ 932,106
2012	580,000	460,889	508,458	514,544	1,088,458	975,433
2013	600,000	443,614	528,654	489,044	1,128,654	932,658
2014	620,000	423,664	514,108	463,355	1,134,108	887,019
2015	635,000	403,064	540,832	437,315	1,175,832	840,379
2016	665,000	381,914	453,838	412,740	1,118,838	794,654
2017	685,000	359,814	507,132	388,919	1,192,132	748,733
2018	710,000	337,014	530,730	363,041	1,240,730	700,055
2019	735,000	313,364	479,638	337,772	1,214,638	651,136
2020	755,000	287,639	503,868	313,099	1,258,868	600,738
2021	785,000	260,564	533,434	286,911	1,318,434	547,475
2022	810,000	231,764	558,344	259,195	1,368,344	490,959
2023	845,000	201,370	588,616	229,937	1,433,616	431,307
2024	510,000	168,970	554,260	200,626	1,064,260	369,596
2025	535,000	148,275	580,288	171,371	1,115,288	319,646
2026	550,000	126,565	606,720	140,659	1,156,720	267,224
2027	575,000	104,245	638,562	108,301	1,213,562	212,546
2028	350,000	80,575	670,836	74,106	1,020,836	154,681
2029	365,000	65,875	707,684	37,899	1,072,684	103,774
2030	380,000	50,363	135,000	14,525	515,000	64,888
2031	395,000	34,213	140,000	4,900	535,000	39,113
2032	410,000	17,424	-	-	410,000	17,424
Totals	<u>\$13,065,000</u>	<u>\$5,377,068</u>	<u>\$10,872,648</u>	<u>\$ 5,704,476</u>	<u>\$23,937,648</u>	<u>\$ 11,081,544</u>

Scheduled interest maturities for RUS variable rate loans are based on the maximum rate of seven percent per annum, except for the 23rd Series. The 23rd Series are equal payment loans and scheduled principal and interest maturities are based on an estimated variable rate provided by RUS.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Operating Expenses

	Years Ended December 31,	
	2010	2009
Cost of power	\$15,042,543	\$14,758,958
Distribution expense:		
Operation:		
Station expenses	134,343	81,738
Dispatching	111,004	110,981
Operation of lines	2,391,754	2,172,143
Meter expenses	602,090	606,814
Environmental programs	468	10,468
Rents	8,457	6,208
Total distribution expense - operation	3,248,116	2,988,352
Maintenance:		
Station equipment	136,801	86,708
Overhead and underground lines	2,402,731	2,568,515
Line transformers and devices	142,486	175,256
Meters	17,717	19,647
Street lighting and signal systems	56,891	62,540
Total distribution expense - maintenance	2,756,626	2,912,666
Customer accounts expense:		
Meter reading	82,287	149,440
Customer records and collection	796,209	761,545
Uncollectible accounts	30,911	29,922
Total customer accounts expense	909,407	940,907
Customer service and informational expense:		
Customer assistance	446,196	406,905
Informational and instruction expense	225,493	223,729
Total customer service and informational expense	671,689	630,634
Sales expense:		
Advertising	67,919	46,792
Other	73,730	69,063
Total sales expense	141,649	115,855

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Operating Expenses

	Years Ended December 31,	
	2010	2009
Administrative and general expense:		
Administrative and general salaries	\$ 1,359,333	\$ 1,299,164
Office supplies and expense	350,902	367,679
Outside services employed	300,434	413,282
Property insurance	84,202	82,220
Injuries and damages	10,528	10,382
Employee pensions and benefits	204,626	190,140
Miscellaneous general expenses	467,676	465,964
Maintenance of general plant	173,563	179,609
Total administrative and general expense	2,951,264	3,008,440
Depreciation:		
Distribution plant	2,166,242	1,826,580
General plant	212,780	203,949
Total depreciation	2,379,022	2,030,529
Taxes:		
Property	722,072	673,964
Oregon Department of Energy Assessment	22,402	20,489
Total taxes	744,474	694,453
Total operating expenses	\$28,844,790	\$28,080,794

**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

April 6, 2011

Board of Directors
Tillamook People's Utility District
Tillamook, Oregon

We have audited the financial statements of Tillamook People's Utility District as of and for the year ended December 31, 2010, and have issued our report thereon dated April 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tillamook People's Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tillamook People's Utility District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tillamook People's Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition to this report on the internal control over financial reporting and on compliance and other matters, we have issued a management letter as required by the Rural Utilities Service.

This report is intended solely for the information and use of the Board of Directors, management and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

**INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS**

INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS

April 6, 2011

Board of Directors
Tillamook People's Utility District
Tillamook, Oregon

We have audited the financial statements of Tillamook People's Utility District as of and for the year ended December 31, 2010, and have issued our report thereon dated April 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control

Our report on Tillamook People's Utility District's internal control over financial reporting is presented elsewhere in this Annual Financial Report.

Compliance

As part of obtaining reasonable assurance about whether Tillamook People's Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe Tillamook People's Utility District was not in substantial compliance with certain provisions of laws, regulations, contracts and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

This report is intended solely for the information and use of the Board of Directors, management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.